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September 5, 2008

Mary L. Cottrell, Secretary
Department of Public Utilities
One South Station, 2nd Floor
Boston, MA 02110

Re: NSTAR Electric Company-D.P.U. 08-10
NSTAR Gas Company-D.T.E. 04-37/D.P.U. 08-36
Response to August 25, 2008 Comments on Expanded 2008 Energy Efficiency Plans

Dear Ms. Cottrell:

On behalf of NSTAR Electric Company (“NSTAR Electric”) and NSTAR Gas Company (“NSTAR Gas,” together with NSTAR Electric, “NSTAR” or the “Company”), I am writing in response to comments filed with the Department of Public Utilities (the “Department”) on August 25, 2008, addressing the Company’s Expanded 2008 Energy Efficiency (“EE”) Plans (“Expanded 2008 EE Plans”), filed with the Department on August 15, 2008. The Company’s Expanded 2008 EE Plans were filed pursuant to the July 25, 2008 letter issued by the Department directing all energy efficiency Program Administrators to increase spending for residential heating programs effective as soon as was feasible, and covering the 2008 winter season. The Company’s response focuses on comments filed by the Office of the Attorney General (the “Attorney General”), Wal-Mart Stores East, L.P. (“Wal-Mart”) and the Department of Energy Resources (“DOER”).¹

- **Comments on NSTAR Electric Revised Energy Efficiency Charge Tariffs**

The Attorney General, Wal-Mart and the DOER each commented, in part, on NSTAR Electric’s proposed revised Energy Efficiency Charge (“EEC”) tariffs which includes a fully-reconciling mechanism to recover costs associated with EE programs (the “Energy Efficiency Reconciliation Factor” or “EERF”). As a threshold matter, both the Attorney General and Wal-Mart recommend that the Department review the EEC tariffs through a process separate from its review of the Company’s Expanded 2008 EE Plans, and subject the EEC tariffs to a hearing pursuant to G.L. c. 164, § 94 (Attorney General Comments at 14-15; Wal-Mart Comments at 3). Likewise, the DOER indirectly noted that the Company’s EEC tariffs include a lost base revenue

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Comments were also filed by: (1) Associated Industries of Massachusetts (“AIM”); (2) the Conservation Law Foundation (“CLF”); (3) Environment Northeast; and (4) the Low-Income Weatherization and Fuel Assistance Program Network (“Low Income”). The Company’s response herein addresses only those comments filed by the Attorney General, Wal-Mart and the DOER.

component and, although noting that this cost-recovery method is an important tool to help the Commonwealth meet the mandates of the Green Communities Act (“GCA”) during the transition to full decoupling, recommended that the Department “thoroughly review” the proposal (DOER Comments at 3).

As acknowledged by the Attorney General (Attorney General Comments, at 4, n.2), the Company filed its EEC tariffs with an effective date of January 1, 2009, and explicitly acknowledged that it expected the Department to review the tariffs during a longer time frame than was likely to be applicable to the Company’s 2008 Expanded EE Plans (see Exh. NSTAR-HCL, at 4-5). Moreover, the Company has no objection to the Department holding a hearing and allowing additional process to review the EEC tariffs. However, the Department should not, and need not, review the EEC tariffs in a manner similar to that for requests for general increases in rates pursuant to G.L. c. 164, § 94, because the EEC tariff is narrowly focused on collecting costs applicable to EE programs, not the Company’s cost of service generally. See Attorney General v. Department of Telecommunications and Energy, 438 Mass. 256, 268 (2002). Moreover, amendments to the General Laws enacted by the GCA specifically establish the Department’s authority to approve a funding mechanism. See G.L. c. 164, § 19. The statutory standards established for the funding of increased energy efficiency expenditures address items such as impacts on consumers, cost-effectiveness, but do not explicitly or implicitly indicate that such funding must be approved in the context of a general rate case.

The Department’s review should focus on the scope and the mechanics of the Company’s proposed EEC tariffs and can address the issues raised by the Attorney General and the DOER (e.g., lost base revenue recovery, recovery of costs relating to municipal aggregation EE programs, etc.) (see Attorney General Comments at 16-18; DOER Comments at 3). Accordingly, the Company agrees that the timing of the Department’s review of its proposed EE tariffs should be distinct from that needed to review the Company’s Expanded 2008 EE Plans and that the process and scope of such review should include a hearing and an investigation into the specific provisions of the tariffs.

In addition, the Company disagrees with the Attorney General’s inaccurate characterization of the EEC tariffs as increasing “...distribution rates in a manner not specified by the terms of its settlement approved in D.T.E. 05-85” (Attorney General Comments at 16). The tariffs filed by NSTAR Electric amend the existing tariffs (M.D.T.E. No. 107, M.D.T.E. No. 207 and M.D.T.E. No. 307) that establish the energy efficiency charge (“EEC”) collected from NSTAR Electric customers. The EEC is a separate rate element and is separate from the distribution rates referenced in the Settlement Agreement approved by that the Department in D.T.E. 05-85. The performance-based Simplified Incentive Plan (“SIP”) set forth in the Settlement Agreement (at paragraph 2.6), provides for inflation-based adjustments of “distribution prices” (*id.*). However, the EEC (along with other similar charges like transition, transmission, pension adjustment, etc.) is excluded from the adjustment mechanism because they are not distribution rates, as that term is used in the Settlement Agreement. See, e.g., Exhibit NSTAR-CLV, at 11-12 and Exhibit NSTAR-CLV-1 filed in D.P.U. 07-81, in which the annual SIP adjustment does not include the EEC. Accordingly, the Attorney General’s comments on this point are without merit.

- **Comments on Expanded 2008 EE Plans**

The majority of the August 25, 2008 comments either did not focus with any specificity on the Company's Expanded 2008 EE Plans (e.g., CLF Comments, DOER Comments, Low Income Comments) or recommended additional funding for some programs in the near term (see, e.g., Environment Northeast Comments at 5, 7). The Attorney General's reply included the most specific comments addressing the Company's Expanded 2008 EE Plans. Although the Attorney General noted that the Company's proposals were the most comprehensive of those submitted on August 15, 2008 (Attorney General Comments at 7), she raised issues with certain aspects of the Company's plans that the Company addresses herein. Specifically, the Attorney General sought additional details regarding:

- (1) programs that offered a mix of heating and non-heating-related offerings (id. at 6);
- (2) how proposed marketing costs related to heating programs (id.);
- (3) how much additional monies the Company proposes to spend on administrative versus other program costs (id. at 7); and
- (4) the additional numbers of customers that may be served by the Company's incremental EE programs (id. at 7-8).

The Company addresses each of these issues below:

⇒ Programs Offering Heating and Non-Heating-Related Offerings

Each of the programs offered by NSTAR Electric that have been identified for additional funding relate to heating measures. The Residential Conservation Services ("RCS") program, the Low-Income New Construction program, the Low-Income Single Family program and the Low-Income Multi-Family program each have a heating system replacement component and an insulation upgrade component. The Residential Multi-Family program provides incentives for insulation upgrades. In addition, each of the programs offered by NSTAR Gas that have been identified for additional funding relate to heating. The High-Efficiency Heating Rebate program, the ENERGY STAR thermostat program, the Low-Income Single Family program and the Low-Income Multi-Family program relate to heating measures. The Weatherization program provides rebates for insulation. Lastly, the Company's Market Transformation line item of \$30,000 is dedicated to promoting all heat and weatherization activities in the High-Efficiency Heating Rebate program, the ENERGY STAR thermostat program and the weatherization program.

⇒ Relationship of Marketing Costs to Heating Programs

NSTAR Electric is proposing to spend an incremental \$9,409 for marketing its RCS Program, which is related to heating. As noted above, NSTAR Gas has proposed to spend an

incremental \$30,000 for Market Transformation relating to several heating-related programs (High-Efficiency Heating, ENERGY STAR and weatherization).

⇒ Additional Monies for Administrative Costs

Neither NSTAR Electric nor NSTAR Gas proposed in their Expanded 2008 EE Plans to dedicate additional funds to internal administrative costs.

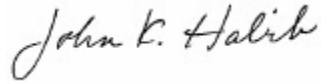
⇒ Incremental Number of Customers That May Be Serviced by Expanded EE Programs

Although predicting the precise number of customers that may be serviced by any EE program is difficult, the Company believes that over 3,000 customers may benefit from the programs identified in its 2008 Expanded EE Plans.

Finally, the Attorney General cites “new programs and program changes that need further review and investigation” (Attorney General Comments at 11). The Attorney General noted generally that “nearly all the gas and some electric companies propose to increase the low-income eligibility for some or all energy efficiency programs from 60 percent of the state’s median income to 80 percent of the state’s median income” (*id.*). With respect to NSTAR, the Company and several other distribution companies are proposing to implement a program sponsored by MassSAVE, which targets the working poor, *i.e.*, those with income at levels up to 80 percent of the state’s median income. The Company believes that this proposal is consistent with the Department’s and the DOER’s intent to make available as many cost-effective EE programs to residential customers in time for the coming winter heating season as possible, particularly low-income residential customers. In addition, the Attorney General also raised NSTAR Gas’s proposed rebate pilot program for landlords to replace heating systems as a program needing further investigation (*id.* at 12). This proposed rebate program was originally filed with the Department in NSTAR Gas’s June 2008 filing in D.P.U. 08-36. The Company presumes that the Department has had sufficient opportunity to review both of these programs and seek additional information as it sees fit, in time to allow the Company to implement both programs as soon as possible.

The Company believes that its Expanded 2008 EE Plans are consistent with the Department’s stated intent to have incremental EE resources in place for the coming winter heating season. Should the Department or other interested parties have specific questions regarding these proposals, the Company will provide additional information about them upon request. However, given the short time available to ramp up implementation of these programs before the onset of winter, the Company respectfully requests that the Department approve the Company’s Expanded 2008 EE Plans as soon as is practicable in early September.

Very truly yours,

A handwritten signature in cursive script that reads "John K. Habib". The ink is dark and the signature is fluid.

John K. Habib

cc: Benjamin N. Spruill, Hearing Officer
Service List